INVESTMENT COMPANY INSTITUTE®

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The Honorable Jeb Hensarling
Chairman, Committee on Financial Services
US House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, Committee on Financial Services
US House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

I am writing on behalf of the Investment Company Institute[1] (ICI) to convey our opposition to H.R. 2319, the Consumer Financial Choice and Capital Markets Protection Act of 2017, a bill that would undo some of the Securities and Exchange Commission's (SEC) 2014 money market fund reforms, including the requirement that prime institutional and tax-exempt institutional money market funds float their net asset values (NAVs).

Since the early 1970s, money market funds have been a steady, predictable mainstay of finance. Today, more than 54 million retail investors, as well as corporations, municipalities, and other institutional investors, entrust some $2.8 trillion to money market funds as low-cost, efficient cash management tools that provide a high degree of liquidity, stability of principal value, and a market-based yield. Money market funds also serve as an important source of direct financing for state and local governments, businesses, and financial institutions, and of indirect financing for households. Without these funds, financing for all of these institutions and individuals would be more expensive and less efficient.

Money market funds owe their success, in large part, to the stringent regulatory requirements to which they are subject under the federal securities laws—including, most notably, Rule 2a-7 under the Investment Company Act. The regulatory regime under Rule 2a-7 has proven to be effective in protecting investors' interests and in sustaining their confidence in money market funds as a valuable tool for managing cash. The SEC has modernized and strengthened the rule from time to time as circumstances have warranted (most recently in 2010 and 2014, as discussed below).

[1] The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$21.5 trillion in the United States, serving more than 100 million US shareholders, and US$7.1 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC.

In light of money market funds' experience in the financial crisis, and with the industry's strong support, the SEC in 2010 approved far-reaching rule amendments that enhanced an already-strict regime of money market fund regulation.[2] The amended rules made money market funds more resilient by, among other things, imposing new credit quality, maturity, and liquidity standards and increasing the transparency of these funds.

The SEC amended Rule 2a-7 again in 2014. The 2014 SEC rules, which took effect on October 14, 2016, focused on two principal reforms.[3] The first reform requires prime institutional and tax-exempt institutional money market funds to price and transact in their shares using "floating" net asset values. The new rules also require these funds to calculate their NAVs to four decimal places. (For a fund with a NAV of $1.00, that means calculating the NAV to one-hundredth of a penny—*i.e.*, $1.0000.) Government money market funds[4] and retail money market funds[5] may continue to seek to maintain a stable NAV using amortized cost valuation and/or penny rounding.

The second principal reform enables, and in certain cases requires, all non-government money market funds (*i.e.*, all prime and tax-exempt funds, whether institutional or retail) to impose barriers on redemptions (so-called liquidity fees and gates) during extraordinary circumstances, subject to determinations by a money market fund's board of directors. Specifically, the new rules give a money market fund's board the flexibility to impose liquidity fees of up to 2 percent, redemption gates (a delay in processing redemptions for up to 10 business days), or both if the fund's weekly liquid assets have dropped below 30 percent of its total assets. If a fund's weekly liquid assets fall below 10 percent of its total assets, the SEC rules require the fund to charge redeeming investors a fee of 1 percent of their redemption, unless the fund's board determines either that no fee, or a lower or higher fee (not to exceed 2 percent), would be in the best interests of the fund. When coupled with the 2010 SEC reforms, these new rules add layers of transparency and redundant safeguards that more than adequately address any risks that may have existed in 2008.

H.R. 2319 would rescind certain 2014 reforms, including the requirement that prime institutional and tax-exempt institutional money market funds float their NAVs. Although ICI and its members did not support many of the measures adopted in 2014, we were pleased that the reforms ultimately preserved money market

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[2] Money market funds in fact were the first part of the US financial system to be reformed in the wake of the financial crisis. *See Money Market Fund Reform*, SEC Release No. IC-29132 (February 23, 2010), 75 Fed. Reg. 10060 (March 4, 2010). Taking the initiative to respond quickly and aggressively to the events of fall 2008, ICI formed the Money Market Working Group to study the money market, money market funds, and other participants in the money market, and the financial crisis of 2007-2008. The March 2009 *Report of the Money Market Working Group* addressed these topics and advanced wide-ranging recommendations for the SEC to strengthen money market fund regulation. *See* Investment Company Institute, *Report of the Money Market Working Group* (March 17, 2009), available at https://www.ici.org/pdf/ppr_09_mmwg.pdf. The SEC's 2010 amendments incorporated many of the report's recommendations.

[3] *See Money Market Fund Reform; Amendments to Form PF*, SEC Release No. IC-31166 (July 23, 2014), 79 Fed. Reg. 47736 (August 14, 2014).

[4] Government money market funds invest at least 99.5 percent of their total assets in cash, government securities, and/or repurchase agreements that are collateralized by cash or government securities.

[5] Retail money market funds have policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons.

funds as a key cash management product for fund investors and a source of financing for businesses and governments. The new regulatory regime involved substantial and costly operational changes implemented on a very aggressive timetable, but money market funds and the money markets have adjusted to the reforms. The consensus of our member leadership is that reopening these reforms is not appropriate or desirable.

Thank you for your consideration of our views.

With very best regards.

Sincerely,

Paul Schott Stevens
President and CEO
Investment Company Institute

cc: Members of the Committee on Financial Services